

Message Text

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PAGE 01 SEOUL 03952 210843 Z

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ACTION COME-00

INFO OCT-01 EA-11 ADP-00 SCEM-02 EB-11 CIAE-00 INR-10

NSAE-00 RSC-01 TRSE-00 OMB-01 INT-08 STR-08 RSR-01

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P 210747 Z JUN 73

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 8421

LIMITED OFFICIAL USE SEOUL 3952

E. O. 11652: N/A

TAGS: ENRG, KS, BPRO

SUBJECT: PETROLEUM: KOREAN MCI REQUESTS INVESTMENT
PROPOSALS FOR EXPORT ONLY REFINERY

SUMMARY: ROKG WILL RECEIVE INVESTOR PROPOSALS FOR NEW OIL REFINERY.

BEGIN UNCLASSIFIED

1. KOREAN COMMERCE AND INDUSTRY MINISTRY ISSUED ANNOUNCE-
MENT NO. 7457 JUNE 1 (EMBASSY TRANSLATION RECEIVED JUNE 20)
CALLING FOR SUBMISSION OF PROJECT PLANS TO MCI MINISTER
BY JUNE 30 BY ANYONE INTERESTED IN CONSTRUCTING OIL REFINERY
IN KOREA FOR EXPORT PURPOSES ONLY.

2. MCI HAS SET FAIRLY STIFF REQUIREMENTS COMPARED TO
EXISTING REFINERY PROJECTS ESTABLISHED PREVIOUSLY. MINIMUM
EQUITY IS SET AT 30 PERCENT OF TOTAL INVESTMENT; MAJORITY
OWNERSHIP AND MANAGEMENT MUST BE KOREAN. AT LEAST ONE
FOREIGN EQUITY PARTICIPANT MUST POSSESS SOURCE OF CRUDE
OIL. INVESTOR IS RESPONSIBLE FOR SUPPLYING FUNDS NEEDED,

WITHOUT REPAYMENT GUARANTEE. MCI WILL SPECIFY PLANT LOCATION,
AND PLANT MUST BE " INTERNATIONAL LEVEL" SIZE. COMPLETE
AND PERFECT POLLUTION CONTROL, DE- SULPHURIZATION AND
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PAGE 02 SEOUL 03952 210843 Z

CATALYTIC REFORMING FACILITIES ARE REQUIRED. STORAGE FACILITIES MUST BE BUILT AT INVESTOR EXPENSE, AND HAVE ADEQUATE CAPACITY ALSO MEET SOME ROKG STORAGE NEEDS. KOREAN MADE COMPONENTS MUST BE USED TO LARGEST EXTENT POSSIBLE. COMPLETION DATE NOT SPECIFIED ALTHOUGH REFINERY IS DESIGNATED AS TOTAL EXPORT USE ONLY, ANNOUNCEMENT ALLOWS POSSIBILITY OF DOMESTIC SALES UNDER ROKG QUANTITY AND PRICE CONTROLS. END UNCLASSIFIED

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3. ANNOUNCEMENT OBVIOUSLY IS TAILORED TO EXPORT- ONLY REFINERIES CONTEMPLATED BY JAPAN' S TEIJIN AND NATIONAL IRANIAN OIL COMPANY AND/ OR FRENCH CFP AND MARUBENI- IIDA PROJECTS. ROKG CLEARLY WISHES TO WIDEN SOURCES OF CRUDE SUPPLY AND WEAKEN HOLD OF WHAT IT SOMETIMES REGARDS AS U. S. MONOPOLY OF KOREAN REFINERY INDUSTRY.

4. LOCAL REPRESENTATIVES OF THREE U. S. FIRMS ALREADY ACTIVE IN KOREA DOMESTIC OIL REFINING HOLD OPINION THAT FOR TIME BEING ANY USE OF KOREAN REFINING TO MEET JAPANESE OIL CONSUMPTION NEEDS SHOULD INVOLVE CONTRACT PROCESSING BY EXISTING REFINERIES RATHER THAN CONSTRUCTION OF NEW REFINERIES. EXISTING REFINERIES HAVE IDLE CAPACITY, IF MEASURED ON ACTUAL RATHER THAN MCI RATED BASIS. IF NEW CAPACITY IS REQUIRED LATER, THESE MANAGERS BELIEVE EXPANSION OF EXISTING REFINERIES IS FAR MORE ECONOMIC THAN CONSTRUCTION OF NEW, SO- CALLED FOURTH REFINERY NOW OR LATER. ON OTHER HAND, U. S. OIL FIRMS NOT NOW PRESENT IN KOREA MIGHT BE INTERESTED IN PARTICIPATING IN FOURTH REFINERY.

5. ACTION REQUESTED.

A. CAN DEPARTMENT FIND OUT IF ANY U. S. FIRMS INTERESTED IN SUBMITTING PROPOSAL? IF SO, WE CAN REQUEST MCI TO EXTEND DEADLINE, BUT WE SHOULD DO SO BEFORE JUNE 30.

B. IF NO U. S. FIRMS INTERESTED, UNLESS THE DEPARTMENT PERCEIVES OBJECTIONS, WE WOULD BE PREPARED TO MAKE REPRESENTATION TO THE ROKG ON BEHALF OF U. S. FIRMS
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PAGE 03 SEOUL 03952 210843 Z

INVOLVED IN EXISTING REFINERIES. HOWEVER, WE BELIEVE THE ROKG IS FULLY AWARE OF THE CONCERN OF THE U. S. FIRMS IN THIS MATTER AND WE MAY NOT GET VERY FAR.
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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts:
Control Number: n/a
Copy: SINGLE
Draft Date: 21 JUN 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973SEOUL03952
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730625/aaaajlir.tel
Line Count: 117
Locator: TEXT ON-LINE
Office: ACTION COM
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 26 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26-Nov-2001 by kelleyw0>; APPROVED <20-Dec-2001 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> wfs 980217
Subject: PETROLEUM: KOREAN MCI REQUESTS INVESTMENT
TAGS: BPRO, ENRG, KS
To: COME
SECSTATE WASHDC
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005